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COMMONWEALTH OF VIRGINIA

STATE CORPORATION COMMISSION

AT RICHMOND, DECEMBER 8, 2000

APPLICATION OF

VIRGINIA ELECTRIC AND POWER COMPANY

CASE NO. PUE000585

To revise its fuel factor
pursuant to § 56-249.6 of
the Code of Virginia

ORDER ESTABLISHING 2001 FUEL FACTOR PROCEEDING

On November 17, 2000, Virginia Electric and Power Company ("Virginia Power" or "the Company") filed with the Commission an application, testimony, and exhibits requesting an increase in its fuel factor from 1.339¢ per kWh to 1.613¢ per kWh effective with usage on and after January 1, 2001.

There are two outstanding issues remaining from Virginia Power's most recent fuel factor case that are presented in the current proceeding in addition to the issues that normally arise. In Case No. PUE990717, issues were raised pertaining to the determination of the proper fuel expenses attributable to the Chaparral (Virginia) Inc. ("Chaparral") special contract,¹ and to the consideration of off-system sales in light of the Company's retail access pilot program. In the Final Order in that case, we

¹ Application of Virginia Electric and Power Company, For approval of a special rate contract pursuant to § 56-235.2 of the Code of Virginia, Case No. PUE980333, 1999 S.C.C. Ann. Rept. 419 (January 26, 1999).

directed Commission Staff to continue to investigate methods of quantifying fuel costs associated with the Chaparral sales, and to file a report on its findings and recommendations.² We further required Commission Staff to propose a method for identifying those off-systems sales and associated margins that result from the capacity freed-up by departure of retail customers who choose an alternative generation supplier, and to file a report on its findings and recommendations.³ These two issues and studies were to be considered in the Company's next fuel factor case. This proceeding represents Virginia Power's next fuel factor case, and we will now consider these issues.

Pursuant to the Final Order in Case No. PUE990717, the Commission Staff filed, on July 12, 2000, the Chaparral Special Contract Fuel Factor Impact Monitoring Study ("Chaparral Study"). The Chaparral Study recommends that the Company use a back-cast, or after-the-fact, run of its simulation model to determine fuel expenses associated with serving the Chaparral load. Because the back-cast method represents the closest approximation to Virginia Power's reconstructed own-load dispatch, the Staff incorporated this method into a six-component proposal for calculating fuel costs attributable to Chaparral.⁴ On or about September 11,

² Application of Virginia Electric and Power Company, To revise its fuel factor pursuant to Virginia Code § 56-249.6, Case No. PUE990717, Doc. Cont. Ctr. No. 000340515, Final Order (March 28, 2000).

³ Id.

⁴ A fixed amount of load is determined for each hour based on Chaparral's expected average hourly consumption during each month of the study period. The back-cast method then is used to produce an estimate of the total average hourly incremental cost to serve Chaparral for the month. Next, estimated non-fuel components are removed to determine the average hourly fuel cost

2000, Virginia Power filed comments on the Chaparral Study recommending the use of a forecast, rather than a back-cast, methodology.⁵ On September 11, 2000, Chaparral filed a Notice of Protest and Protest.⁶

On August 29, 2000, also in response to the Final Order in Case No. PUE990717, the Commission Staff filed a report on Fuel Accounting for Sales Displaced in Retail Access Pilot ("Displaced Pilot Sales Report"). This report proposed a calculation method to separate margins from off-system sales resulting from capacity freed-up by displaced pilot sales, from the margins realized from other Company off-system sales activities, in order to allow accurate shared margin crediting to the fuel factor in accordance with the Company's Definitional Framework of Fuel Expenses. The Displaced Pilot Sales Report recommended the use of a pro-rata method to segregate off-system sales attributable to displaced pilot sales from those off-

associated with Chaparral. This fuel-only average cost is then multiplied by Chaparral's hourly load to yield total fuel cost associated with serving Chaparral.

⁵ Virginia Power argued that: (1) under the Chaparral special contract, a major component of the price that Chaparral pays is determined by a day-ahead forecast of the Virginia Power system lambda and specifically excludes any after-the-fact verification or true-up; (2) use of the back-cast method would deprive it of some of the benefit of the bargain struck with Chaparral; and (3) the back-cast method is an estimate that incorporates "new costs" not included in the forecast, specifically, start-up, shut-down, and no-load carrying costs as defined by the Company; the inclusion of these "new costs" causes the back-cast method generally to result in a higher estimate of incremental costs than the forecast method.

⁶ Chaparral argued that: (1) the Staff did not have appropriate data; (2) the Staff considered Chaparral as an off-system wholesale customer, when Chaparral actually is a native load customer; and (3) the back-cast method is contrary to the special contract.

system sales that would be made in the absence of Virginia Power's retail access pilot program.⁷

On October 10, 2000, Virginia Power filed comments agreeing with Staff's analysis with one exception. This exception questioned the Staff's assertion that the determination of hourly sales volumes should be calculated using the sum of the scheduled hourly loads for all CSPs, rather than the sum of the forecasted hourly load for all CSPs produced on a day-ahead basis.

Pursuant to our Final Order in Case No. PUE990717, further action by the Commission on the Chaparral Study and the Displaced Pilot Sales Report was to be withheld until Virginia Power's next fuel factor case. The determination of the proper fuel expenses attributable to the Chaparral special contract and the consideration of off-system sales associated with the Company's retail access pilot program now will be addressed in the current proceeding.

IT IS THEREFORE ORDERED THAT:

(1) This matter is docketed and assigned Case No. PUE000585.

(2) The proposed fuel factor of 1.613¢ per kWh shall be effective, on an interim basis, for usage on and after January 1, 2001.

⁷ The starting point for this method is the day-ahead forecast of hourly MWh volume of load estimated to be served by competitive service providers ("CSPs") in the pilot program. The method effectively reduces the recorded volume of each off-system sale occurring in a particular hour by a factor equal to the displaced pilot sales in that hour divided by the total MWh volume of all off-system sales recorded during each hour. Displaced pilot sales margins are assigned that hour's average profitability.

(3) A hearing is hereby scheduled for 10:00 a.m. on March 1, 2001, in the Commission's Second Floor Courtroom for the purpose of receiving evidence related to the establishment of Virginia Power's fuel factor to be effective on and after January 1, 2001, pursuant to § 56-249.6 of the Code of Virginia.

(4) Any member of the public may obtain a free copy of Virginia Power's application, and prefiled testimony, and exhibits by contacting counsel for Virginia Power, Karen L. Bell, Esquire, Legal Services, Virginia Electric and Power Company, One James River Plaza, P.O. Box 26666, Richmond, Virginia 23261-6666. The application, prefiled testimony exhibits, and other papers filed in this docket also may be reviewed at the Commission's Document Control Center, First Floor, Tyler Building, 1300 East Main Street, Richmond, Virginia.

(5) On or before December 18, 2000, Virginia Power shall cause a copy of the following notice to be published as display advertising (not classified advertising) on one occasion in newspapers of general circulation throughout its service territory:

NOTICE TO THE PUBLIC OF THE 2001
FUEL FACTOR PROCEEDING FOR
VIRGINIA ELECTRIC AND POWER COMPANY
CASE NO. PUE000585

On November 17, 2000, Virginia Electric and Power Company ("Virginia Power" or "the Company") filed with the State Corporation Commission for an increase in its fuel factor from 1.339¢ per kWh to 1.613¢ per kWh

effective with usage on and after January 1, 2001.

In addition to examining the reasonableness of the Company's current proposed fuel factor increase, there are two outstanding issues remaining from Virginia Power's most recent fuel factor case to be considered here. In Case No. PUE990717, issues were raised pertaining to the determination of the proper fuel expenses attributable to the Chaparral (Virginia) Inc. ("Chaparral") special contract, and to the consideration of off-system sales in light of the Company's retail access pilot program. In the Final Order in that case, we directed Commission Staff to continue to investigate methods of quantifying fuel costs associated with the Chaparral sales and to file a report on its findings and recommendations. We further required Commission Staff to propose a method for identifying those off-systems sales that result from the departure of retail customers who choose an alternative generation supplier and the margins associated with such sales, and to file a report on its findings and recommendations. The Commission Staff filed studies as directed. These two issues will be addressed in this case. Any interested persons may file comments or testimony, as described below, on the proposed fuel factor as well as on the Chaparral Study and the Displaced Pilot Sales Report available for public review.

Pursuant to § 56-249.6 of the Code of Virginia, the Commission has scheduled a public hearing to commence at 10:00 a.m. on March 1, 2001, in the Commission's Second Floor Courtroom, Tyler Building, 1300 East Main Street, Richmond, Virginia, for the purpose of receiving evidence related to the establishment of Virginia Power's fuel factor. However, the Commission has authorized Virginia Power to collect, on an

interim basis, a fuel factor of 1.613¢ per kWh effective for usage on and after January 1, 2001.

Any member of the public may obtain a free copy of Virginia Power's application and prefiled testimony and exhibits by contacting counsel for Virginia Power, Karen L. Bell, Esquire, Legal Services, Virginia Electric and Power Company, One James River Plaza, P.O. Box 26666, Richmond, Virginia 23261-6666. The application, prefiled testimony, exhibits, and other papers filed in this docket also may be reviewed at the Commission's Document Control Center, First Floor, Tyler Building, 1300 East Main Street, Richmond, Virginia.

On or before January 19, 2001, persons desiring to participate as Protestants, as defined in Rule 4:6 of the Commission Rules of Practice and Procedure, 5 VAC 5-10-180, to present evidence and cross-examine witnesses, shall file with the Clerk of the Commission an original and fifteen (15) copies of a Notice of Protest, a Protest, and the prepared testimony and exhibits the Protestant intends to present at the hearing. Protestants shall serve two (2) copies of each of these documents upon the Commission Staff and upon Virginia Power. Service upon the Company shall be directed to counsel for Virginia Power, Karen L. Bell, at the address set forth above. Two copies of each of these documents also shall be served on all other Protestants on or before January 26, 2001.

Any person desiring to make a statement at the hearing need only appear in the Commission's courtroom at 9:45 a.m. on the date of the hearing and identify himself or herself to the bailiff as a public witness.

All written communications to the Commission regarding this proceeding shall identify Case No. PUE000585 and shall be

directed to Joel H. Peck, Clerk, State
Corporation Commission, Document Control
Center, P.O. Box 2118, Richmond, Virginia
23218.

VIRGINIA ELECTRIC AND POWER COMPANY

(5) On or before December 18, 2000, Virginia Power shall serve a copy of this Order on the County Attorney and Chairman of the Board of Supervisors of each county (or equivalent officials in counties having alternate forms of government) in which the Company offers service, and on the Mayor or Manager and the Attorney of every city and town (or an equivalent official in cities and towns having alternate forms of government) in which the Company offers service. Service shall be made by either personal delivery or by first-class mail to the customary place of business or the residence of the persons served.

(6) On or before January 19, 2001, persons desiring to participate as Protestants, as defined in Rule 4:6 of the Commission Rules of Practice and Procedure, 5 VAC 5-10-180, to present evidence and cross-examine witnesses, shall file with the Clerk of the Commission an original and fifteen (15) copies of a Notice of Protest, a Protest, and the prepared testimony and exhibits the Protestant intends to present at the hearing, including any testimony and exhibits relating to the Chaparral Study and the Displaced Pilot Sales Report. Protestants shall serve two (2) copies of each of these documents upon the Commission Staff and upon Virginia Power. Service upon the Company shall be directed to counsel for Virginia Power, Karen

L. Bell, at the address set forth above. Two copies of each of these documents also shall be served on all other Protestants on or before January 26, 2001.

(7) On or before February 14, 2001, the Commission Staff shall investigate the reasonableness of Virginia Power's estimated costs and proposed fuel factor and file testimony with the Clerk of the Commission. The Staff shall send a copy of its testimony to the Company and each Protestant.

(8) On or before February 21, 2001, Virginia Power shall file an original and fifteen (15) copies of all testimony it expects to introduce in rebuttal to all direct prefiled testimony and exhibits, which may include testimony and exhibits relevant to the Chaparral Study and the Displaced Pilot Sales Report. Such rebuttal testimony shall be filed with the Clerk of the Commission, with copies to the Staff and each Protestant. Additional rebuttal evidence may be presented without prefiling, provided it is in response to evidence that was not prefiled but elicited at the time of the hearing and leave to present said evidence is granted by the Commission.

(9) Discovery shall be in accordance with the Commission's Rules of Practice and Procedure, except that the Company and Protestant(s) shall respond to written interrogatories or data requests within five (5) calendar days of service. Protestants shall provide the Company, other Protestants, and the Staff with any work papers or documents used in preparation of their filed testimony promptly upon request.

(10) The Chaparral Study and the Displaced Pilot Sales Report, and comments related thereto in Case No. PUE990717, are hereby made a part of the record in this case.

(11) On or before the commencement of the hearing scheduled herein, Virginia Power shall provide proof of service and notice as required in this Order.